

MEETING SUMMARY NOTES

Finance Work Group

December 5, 2002

3:30 p.m., Mayor's Conference Room

Members: Present: Brad Korell, Chair, Larry Zink, Otis Young, Bob Hampton, Connie Jensen, Richard Megennis, Kent Seacrest, Dan Marvin, Tim Thietje, Roger Severin, Terry Werner, Ron Ecklund, Keith Brown, Tom Schleich, Polly McMullen, Mark Hesser, Lowell Berg, Jim Budde; Allan Abbott (non-voting). Absent: Lowell Berg, Tom Schliech

Others: Kent Morgan, Roger Figard, Steve Masters, Margaret Remmenga, Marvin Krout, Nick McElvain, Randy Wilson, Randy Hoskins, Don Herz, Peter Katt, Virendra Singh and Jon Carlson.

AGENDA ITEMS DISCUSSION:

1. Welcome - Brad Korell, Work Group Chair

Brad Korell opened the meeting.

2. Meeting Summary Notes - November 20, 2002

Notes from the last meeting were sent out and Mr. Korell asked if there were any changes. Larry Zink again asked about whether there is a need for additional funding for current streets. He brought up again and discussed it with people in existing neighborhoods and they do not feel there is a need for additional funding in that area. In addition, Ron Ecklund wanted it on record that he was absent from last meeting.

3. Location for December 12, 2002, Meeting

Mr. Korell referred to a map handout for the next meeting which will be at the Public Works Engineering Services Building. Allan stated it is off Sun Valley Blvd, by the arch by the plumbing company, follow the road and the building to the left. Arrangements will be made for adequate parking. The meeting is at 7:30 a.m. We will remind you again by E-mail next week.

4. Public Comment Period

Time for guests. Hearing and seeing none, the meeting proceeded.

5. Miscellaneous Data Requests

At this time additional guests were introduced: Virginia Rutledge who is a senior managing consultant with the Public Financial Management in Orlando, Florida and John Burmeister who is from Des Moines. Allan introduced Carl Fredrichsen who is the new assistant working with Roger. Mr. Korell also noted the additional staff members present who are: Roger Figard from Public Works, Randy Wilson from Lincoln Waste Water System, Steve Masters from Public Works, Nick McElvain from Lincoln Water, Gary Brent from Lincoln Waste Water and Solid Waste System and Margaret Remmenga from Public Works.

Kent handed out more information on miles of arterial and residential streets by year for the City of Lincoln for centerline and lane miles. The question was asked about the difference between the two. Lane miles would be two miles for two lanes. Which is most used? The formula is based on number of lane miles and the number of dollars we get for our share of state money. If a street is 30 ft wide that is considered three lanes no matter how it is striped. That is why it is functioning that way. Also by doing it this way it is also used for pavement maintenance. Mr. Korell asked if we would focus on lane miles for our purposes. Roger: Yes.

Kent also had a request for information on revenues and expenditures on streets and the program was turned over to Don. Don stated this is information that comes directly from audited financial statements which is combined for different activities within four different funds for total revenues and expenditures. Some items were broken out further where additional information was available. Rehab for instance they were able to get figures back to 1998. This should give a good idea of fuel tax received, some reimbursements in 2001, the amount of wheel tax and other funding. Expenditures were stated and footnotes attempt to explain some of the items. There was a question on why the snow removal was higher.

Allan asked when we stopped getting money from the general fund for snow removal. Comment was made the general fund was used until late 1980's. It was funded out of the general fund in early years shown here. The wheel tax increased from \$23 to \$39 and a portion of that was used for snow removal. Don Marvin raised the question on Department of Roads paying? Roger explained simple as the "O" Street project where the state is paying a part of the project. It could also be our share of Federal aid money on the arterial streets of South 70th and South 84th. In some cases the state is billed differently as not all streets were built at the same time and after they are done the state paid it back. As in 2001 some of the money was paid back into the funds. Today we have Federal aid money to finish South 84th Street, and until we build it, the money will not be received. Don added these are essentially on a cash basis. Another comment: In 1982 would have expected revenue funds and is that shown somewhere else? Don: They did not go into general fund activity from the four current funds for projects. Another question was what funds are we looking at? The answer was two special revenue funds: The Street Construction and Snow Removal Fund and two capital projects: 1) Capital construction for streets and 2) Vehicle Tax Fund. Question: When you look at this, it appears there are a lot of transfer between funds and coming out of construction but where is the money going? Don was questioning this also and therefore he analyzed those four funds. For the five years he analyzed,

2001 back to 1998, there were very little net transfers in that. In fact about \$100,000 transferred into these four funds from different sources and not going out to other funds. An accrual statement is available to review.

Mr. Korell asked if there were any other questions which prompted the question if Lincoln is growing 1.5% and inflation is at 4% a year and we claim the city is way behind in roads, if the road budget is growing 8% a year for the last 20 years, how do you get behind?

Allan answered by stating you get behind because needs grow faster than 8% a year which were projected. No direct proportion of population growth in areas where nothing has been developed water, sewer, etc. as to transportation needs. It's where you have to be and if you grow in an area where there are no roads, no sewer, then it is going to cost more than 1.5% to get into that area. If you grow in an area where everything is there, it doesn't cost you anything. There are a multitude reasons to fall behind. Another question was how did 8% come up and the answer was a compounded return. Additional discussion between members on these that expenditures were about 95% and also inflation was about 12% in 80's.

Mr. Korell asked for further clarification about the rehabilitation line which is really maintenance on existing streets. Allan answered that rehabilitation and not maintenance on existing streets. That is the resurfacing of city streets and the arterials. There is difference between that and going out and fixing pot holes. Another comment about the first line of the report: That is the filling of potholes, mowing the right of ways, and fixing the curbs. Rehabilitation is better understood to mean resurfacing the existing streets out there, replacing the curb or base, or adding center turn lane. Brad referred to the last two lines of the report under expenditures starting in 1998 that would be \$10.2 million if we combined the \$6.6 and the \$3.6 and up to 2001 where \$16 and \$5 would be the amount that really represents with the combining of those two numbers what we are spending on new street construction in Lincoln. Allan added that part of that would be in the rehabilitation which will include some widening. Construction contracts are primarily the major reconstruction of a roadway which are the streets such as Old Cheney and Pine Lake which is different that the work on 33rd Street with resurfacing and curb replacement. Question where East O would be shown and it would be in the line item with \$16 million on end - construction contracts. Mr. Korell again stated that is totally replacing an existing street plus building a new street. Allan agreed when in rehab we may widen a foot, but on "O" Street where you are adding lanes, that is in construction.

Terry asked about engineering services outside or contracted and not inside. Allan referred to footnote 6. Terry stated then that it does include other public works departments. Is the financing entirely from the public works department or are there other funds that finance the engineering functions that are applicable to producing those projects? Allan said that is in footnote 5 for construction contracts which includes contractor payments and consultant services. Design of the project is in engineering and other inspection of the project is in construction because that is a construction cost.

Mr. Korell: This has helped to lay the foundation for them to forecast expenses going forward

and also helping us solve for the gap. This handout is mostly for information today. More handouts were passed around for latecomers, and Brad also mentioned the next meeting location.

Kent added they are still working on some historic information on the waste water and water and Roger Severin had some handouts. After these were passed around Roger explained that he had done some research from ten cities and where does their money come from. He asked that everyone please read the notes because the information shown is for different years of budgets and some funding is not included. He also provided a pie chart on the bottom where there are some huge differences especially through Kansas and Missouri where they have water and waste water districts provided by county rather than the city being responsible. The questions was asked if this research was also done for Lincoln? Roger answered that it was not done for Lincoln but all cities that were contacted wanted a copy of his report. Brad: Are there better formats from some of these cities? Roger said most of them struggled and he was pleased they went through the time and energy to put this together and again the other cities did want a copy of the information he compiled.

Allan added the pie charts that they provided were for single years. They can also provide the pie charts for five or six years if needed. Roger again stressed to read the notes in addition to reviewing the pie charts.

Roger: These are all inconsistent reports and we need to do more research. These are simply other methods of what other cities use for funding. Also, Kansas City, Kansas did not differentiate - all in one lump sum so it is confusing, but they do have a lot of different funding sources.

Allan referred to the Olathe, Kansas, chart compared to Kansas City, Kansas, population and expenditures. As Roger said, a lot of different comparisons, Allan thanked Roger for doing this.

Carol commented on Chandler, Arizona, and Scottsdale, Arizona both have a significant amount from general obligations. Roger: Sales tax seems to be the most significant contributor for street funds, but there are all other kinds of sources, too.

Brad also thanked Roger and entered the handout into the record. Next is waste water

6. 7, 8. - Priority Area A Capital Projects

Margaret Remmenga, is the business manager for Public Works and Utilities Department. She had a two page handout. She will review the top portion of the two pages which are the same and then Steve Masters will be reviewing bottom portion of the two pages which are different. They tried to project the revenues for next six years and then the next 7-12 year period and then a total 12 year period. The revenues for waste water include the user fee revenues that are coming in and miscellaneous and estimated interest revenue on an annual and she also took into account on a one time basis any funds that were in the waste water revenue fund that had not been appropriated as of the end of current fiscal year which ends as of August 31 of each year.

On the line where it says new revenue bonds for waste water we have worked with Ameritas on this and it has been determined that based on audited revenue and expenditures for fiscal year 2001-2002, we can issue an additional \$39 million in new revenue bonds for waste water without user fee increases. The revenue bond issue is shown in the first six years of the program. Between 7 and 12 yrs we would not be able to issue any more revenue bonds without an increase. When projections were put together, a 1% was added in. When we increase user fee rates to customers, there is a slight decrease in usage for a short period of time. The next section is operational and maintenance expenses for the department and this also includes any capital replacements and capital replacements to them are any type of replacements that have a life of 15 yrs or less: pumping station, parts, etc. Those costs were escalated at 1.5% as growth of the city. For the debt service listed, this is based on any revenue bonds issued. We do currently have a loan from the state that is being repaid covenants same as bond issue for waste water. Margaret further explained the figures as shown on the handout including the use of an impact fee.

Larry asked about exhuming fees? Allan answered it exhumes the fees that are in the ordinance now going from \$2,500 to \$4,500 and then staying at the \$4,500.

Margaret further explained the lower part of the sheet gets into the capital improvement program that Steve has put together. The total cost of programs and the last line is the gap. The program will now be turned over to Steve. Allan further commented that the reason the revenues were less in years 7-12 than 1-6 is that years 1-6 contains balances we currently have which will not be part of the revenue stream in years 7-12. Margaret: Some projects are appropriated the current fiscal year and when the capital improvement figures were put together on the lower portion of the sheet, he indicated that some of the projects would not be completed until the next fiscal year and some of those dollars were brought in. Brad stated again these are not free reserves. Those are dedicated against existing commitments. Allan agreed. There are about \$8 of free reserves which is included in the \$119. Mr. Korell asked about the \$22 million included in the expenditures. Margaret said \$7 million was not appropriated. Allan said the amount that will be spent this year was shown. It was agreed what is really trying to be shown is the amount to be spent for the current fiscal year ending August 31, 2003, and trying to keep it as consistent as possible. Further discussion on the fiscal years shown and debt outstanding with the state at about \$6 million. There would be a \$42 million debt to be repaid in 12 years. Margaret agreed this does seem very high and will run an amortization schedule. Small group discussions continued on funding and debts.

Mr. Korell: Questions for Margaret. We are any increases in revenues based on increases in fees in waste water. The 7% approved by the Council is only for water. Nothing approved for waste water increases. When was the last time waste water fees were increased? It was in 1981 and there is no fee proposal increase in this number. Operation and Maintenance Cost: There is no inflation built in, but there is 1.5% based on growth. Steve continued to explain the lower portions of the pages. The base level projections takes the existing 6 year program and heads it out to compliance with the Comp plan. The second one is the Category 5 projection and it relates to a more aggressive effort. The totals are not inflated and the totals are the same for both. The only difference in these analyses is how dollars are shown in the distribution in trunk

sewage. Steve further reviewed the figures and information on the handouts. In summary: We have tried to find a way to phase the construction in those two waste water plants over two discharge permit cycles. One discharge permit cycle is 5 years. The intent is that in first 5 yrs most of the capital improvement would be at Theresa Street plant and during the same period we would be working on bio-towers out there to allow us to be in compliance with new discharge limits. We would divert flow that currently goes to NE plant and that would go to the Theresa Street which could cause some risk if we have heavy, unusual rainfall. We need to put dollars into trunk sewers as we can before building treatment plants.

Brad asked Steve to relate that back to the Category 5 map what we are doing different between the two numbers. Steve explained with the baseline program with the trunk project with the Salt Valley and the Beal Slough improvements they are coming in later in the time period as compared to the Category 5 program. One year doesn't sound like that much difference, but just going to the baseline is a major change in thinking. Also when you compare the baseline program in Steven's Creek, you will see portions of the Category 5 are being brought in earlier than on the baseline program.

Allan repeated that both maps say that we would have spent all the money in years 1-5 and 1-4 to two plants. We did not do that, we took it 1-12 because this would still be in compliance with the Category 5 type of operation. The cost was spread out as much as possible when feasible to do so. Brad: So Category 5 was revised based on things that could be managed reasonably well and not have to spend money quite as fast. Allan agreed.

Steve went on to explain that at the NE treatment plant in that second permit cycle, Years 6-10 we would be doing more construction in NE than we would be in the first five-year period. The population and flow would not be there until later in the 12-year period.

Question: You are talking about a \$160 million investment in the property plant and equipment for the 12 years which is more than the current costs in the system. You are not projecting any increase in revenues. Answer was just the 1% which is not a significant investment in the plant. Is this for other than growth? Allan explained you're looking at a 6-year benefit period. This is going to be for growth extending beyond the 6-12 year period which prompted the next question as to why pay for it now instead of the future users? Allan: We provided the cost of the 1-6 year and 1-12 year plan as requested, not necessarily where the money comes from.

Steve went on to explain they were going back to the comp plan and say forget about financing from an engineering point of view. Another question: Is this the engineering or finance sub group and that's why we need to talk about finances.

Discussion further continued on the cost as amortized over an appropriate period of years and information needed to properly allocate funds. The gap is reduced in early years compared to long term benefit.

Mr. Korell stated when doing the Infrastructure financing there are variable and fixed cost components. When running that water line to the next house, that's a variable cost. You're

adding one house at a time. The other component is the fixed cost. When we are dealing with waste water, at some time there is a trunk line needed and as Allan explained we have to go from a 24 to a 48 inch trunk line in a major part of the city. That is not a variable cost - that is a fixed that we need to go out and do. These trunk lines need to be added when they are built. Then you also have the sewage treatment plants needing to be added. At this phase all we are now trying to do is to get a look at the right costs needed to carry out the comprehensive plan. Mr. Korell: We are going to look at this with water, streets, waste water, parks - and come up with the financing gap and then we will come back and talk about how we will fill that gap.

Going back to Steve's presentation, he had passed around a: Non Data Information Sheet. What is not in the data: 1) Inflation is not factored into the costs. They predict costs will be higher than shown for both operational and maintenance and capital. 2) What is outlined in terms of practical logistics for engineering and construction, we will be doing projects at multiple locations where typically in the past they have been phased over a longer period of time and that they predict will cause some unforeseen challenges. Also, 3) Waste water treatment costs compose about 50% of those totals and we will have some risk by phasing those over two permit cycle, but it should be a reasonable thing to do. Finally, 4) By going back to look at some of the early thinking, this has created some new thinking which has been good.

Bob Hampton: Thank you for looking at things as you have done.

Allan added that as we go through this it was his understanding that the this committee would pick either Category 5 or the baseline and we would then go back and refine further. The second thing was these numbers are not divided by 12 or 6 in the respective periods. The 12 period was front loaded in the first six years. The 6-year program is going to be front loaded in the first three years. We are shorter at the beginning and less closer to the end of the periods.

Question: Is there a split between new capacity or complying with higher federal and state standards? Steve answered that first of all having new standards, the capacity of our treatment plants was reduced to about half if we had to meet limits without building something. So that means we have to have additional tankage to serve the existing population. We can't tell you that just now but we have those numbers. You're interested in what is the additional cost for new treatment limits and what is in that 12-year cycle for future growth, right? Answer was you have \$85 million over 12-years in two plans. You feel that 1/3 is what could be called growth and 2/3 is raising our quality of water? Randy and Gary were called on for this answer. The newest addition at T Street was built in 1971 so it's 31 years old. Something would have had to be done at T Street in the next five years just to meet our current standards. At Northeast that was built in 1980. If nothing changed in terms of waste water standards, we would have to be doing something at Northeast in the next 5-10 years because of growth and at Theresa Street probably the same time zone. But new standards are here now and this is why it is brought up now. We will try to get a break out for you but you are probably pretty close..

If we are spending \$85 million and 2/3 of it is raising the bar, there is a lot of money there. Have we really done our best? Allan answered this by stating that we have done everything we can. We started at \$35 million and now down to \$21 or \$22 million so we have cut about \$14 million by arguing. This is working with everybody that has power or influence to cut these costs.

Mr. Korell asked if this is something the legislative committee could look at? Allan answered the federal government would have to change the law. Polly asked if other communities are facing the same thing problems? Again Allan answered the Clean Water Act will not change. Comment was then made that there are ways at the state level that how things are interpreted and implemented.

Further discussion of the group was that you need to satisfy Federal standards and the Federal EPA. Region 7 must approve and oversee and say permit is okay.

Mr. Korell: We will mark this as something that we have done everything we can and for further consideration. Mark was following up on what Kent has said in that the Gap is always because of growth. It is important to note that with waste water, the gap is probably there whether or not we have growth. Brad: The standard is set higher because of federal standards. For the purposes of going to the public with whatever program, knowing how much of that is part of this gap number will help us because it is not negotiable. We're going to have to deal with that regardless.

Allan: That's why we have the balance. He has been saving it to build a new plant.

Ron was following up on what Kent and Allan have said. He would like to see the chart expanded on year by year to see what the gap is and also then have the capital expenditures broken out between growth and enhancements. Allan would be glad to these if he had more help and after it is definite what is wanted, they will work toward that.

It was again restated to see the gap year by year and have capital expenditures broken out. Discussion followed on year by year or 6 year period.

Mr. Korell asked if there were any questions for Margaret or Steve. The contingencies built into these for cost overruns, errors and omissions - what is our contingency that is in these numbers? Answer is that construction is 20 to 25% working off accepted engineering practices. This number seemed high to the entire group. Roger was called on for comment. He said for a planning level estimate basis they do use 20% because there are too many things you don't know. Further comment was that the \$163 mil is really \$120 mil with contingencies? Again Roger said there are unique situations with every project that you don't know until you get into the design and you have to use the contingency of 20%. Brad asked if this is the number that is used based on our experience. Again Allan stated it would be nice if we had a set of plans for everything in the 15 year program because that would mean all the engineering would be done and an estimate could be made and the contingency may drop to 10%, but never down to 0% as no plans are available. Roger again added that as they get into design the contingency goes down because some of the unknowns are eliminated.

Mr. Korell asked if there are any more questions? Kent: Again asked for a 1/3 to 2/3 breakdown - just a quick estimate. Margaret did point out the debt service is within range and they will get

a specific level run to see how close we are. She had another handout with two pages in similar format.

Brad: If there have been no increase since 1981, why haven't we had an increase? Group discussion followed. It may have been a political decision. Margaret added since no inflation was included. Revenues were escalated at 1% depending on rain season of the year. User fee revenue, interest income and balance at end of current FY is estimated at \$150 Mil for the first 6 years. They were able to issue \$20 million in new debt. Can have \$1.3 mil without an increase in user fee. The total estimated revenue is \$151,300,000. For the next six years again that revenue is \$143 million. The reason that is lower than first six years, there is \$4 million of the bond issue just passed that is going to cover projects that Jerry and Nick identified in the first six years. We also had a cash balance carryover. For operational and maintenance costs we are escalating those by 1.5% on an annual basis related back to the growth of the city. The debt service for the first years is approximately \$36.5 mil over six year periods. The \$53 mil outstanding debt now adding \$1.3 million and paying off \$73 million in debt in the next 12 years. Margaret stated the debt is amortized over a 15 or 20 year period which is \$5.4 million a year x 6 over a 15 yr period. This includes the interest to be repaid. This brought the question of why amortizing over 15 years? Mr. Korell stated the city has had a practice of amortizing the debt on short maturity like 15 years and that has served us well allowing us to keep reloading on a fairly short schedule and keep the credit rating up. We do have more capacity now and also if we extended it 5 years longer. Those are some of the considerations this committee will need to make if we want to make those recommendations to the city.

Bob Hampton: When were water rates increased? Allan and Margaret agreed it was in 1991.

Margaret: We went from a 7 to 11% increase to build finances to build a plant in Ashland.

Margaret again explained the figures shown on the handout charts. Steve will again review the lower part of the sheet. Brad asked about the 7% just approved that is a one-time increase and when does it go into affect? She answered it goes into affect this fiscal year starting last week. There are no additional increases in rates 2, 3, 4 and 5. The charts are status quo after the first increase. Allan said we have refinanced 30+ and sold 18 new and using 14 of the 18 used for this year's program and that leaves 4 to be carried over to next year. \$8 million was carried over for this fiscal year

Steve explained that in looking at both sheets most of the numbers are identical for water in comparing the baseline projections with the Category 5. They do anticipate over the next 12 year time frame over \$61 million in supply treatment and transmission. That is all expense outside the city of Lincoln that allows us to bring water into town. These figures include rehab and replacing within the system. Need to develop SW as shown in year 7 of the Category 5 concept. We have very little in way of water facilities that can be expanded to SW Lincoln. Nick added the transmission main coming in from Ashland to Greenwood and to finish that Greenwood to NE pump station and then on and that's all that is in the transmission or pipeline - not including any pumps for a total of \$30 million under transmission. There is only \$3 million between baseline and Category 5. Bob Hampton: How much do you think is attributable to new growth versus existing? All rehab and the rest is growth. The distribution portion is about \$15

million in each case to replace about 0.4 of our water mains each year. If we had an older community, it may be more than 0.4 per year. Question: You're saying that \$120 million over 12 yrs is for new growth? Answer was yes. Allan further explained a lot of that is in transmission. We have \$30 in transmission for a new line and expansion. Transmission line coming in is spread over both 6 yr periods. Steve added that a lot work has gone into this.

There were comments and questions as follows: Should charts be redefined to clear what is rehab and new growth? For funding these are different issues. Even in new growth we could have a breakdown of sewage treatment which should be paid by public and some by end users. Allan said it depends on how soon you would need these. Again stated to have the formats of the reports the same. Allan asked that you pick the alternate you want us to work on.

Mr. Korell: You mean Category 5 or the baseline? Let's discuss this now. Category 5 was the way to jump start the growth to get things in the ground faster. Numbers don't change that much, just front loads it. It almost appears we should go with the Category 5 right now. He was surprised that it was not more front end loaded and not that much different. Larry added he would like to look at streets before we make a call. Allan added streets are bad either way, but we'll take a look. Another suggestion was a break out of capital replacements to see split so 1111OM and what capital is on these pages. Steve and Margaret can do this.

Mr. Korell asked again if everybody was willing to go with Category 5 from this point forward? Answer was no, let's follow Larry's suggestion and look at streets before we decide but that will not be today.

Allan added that will give them some time also to work on streets and see what they can logically move rather than have everything front loaded and attempt to phase things a little more within streets, water, and waste water. They will try to get costs by year for water and waste water next time but cannot do that for streets. There is about \$330 million in street construction in first 6 years because physically plans cannot be completed, right of way buying and financing.

Another question about baseline compared to Category 5, is the baseline in fact an accelerated one over the original comprehensive plan. Answer was that the baseline is an acceleration over CIP program, but baseline is designed to implement the comprehensive plan as approved in the time frame approved. The dollars will not be different.

9. Other Business

Mr. Korell: We will meet with Allan and see how close we can come to building this on a schedule. Bob Hampton has sent some information on SID's which has been added to the agenda which will be used later when looking at some alternatives for financing and raising funds. Bob has suggested we get an attorney here to answer questions of how this can be used as a financing tool.

Roger added that when we get into an aggressive paving schedule, we do not have a lot of capacity in this community to build those which means that there is going to a lot of money leaving this community and there is not a large supply of work for local contractors. This could escalate the costs of these projects. Bob Hampton mentioned several construction companies. Allan added when funds coming to Nebraska increased 25% from the federal government, the cost of doing work costs increased 25%. It was added he has work is slowing down and you are seeing more bids from Iowa and Kansas contractors. It was agreed we have gone through a slow down. Further discussion on economic impacts of availability of contractors for street work.

Bob has also been researching with attorney for SID's

10. Adjournment

Mr. Korell announced again the next meeting is December 12, 2002.

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